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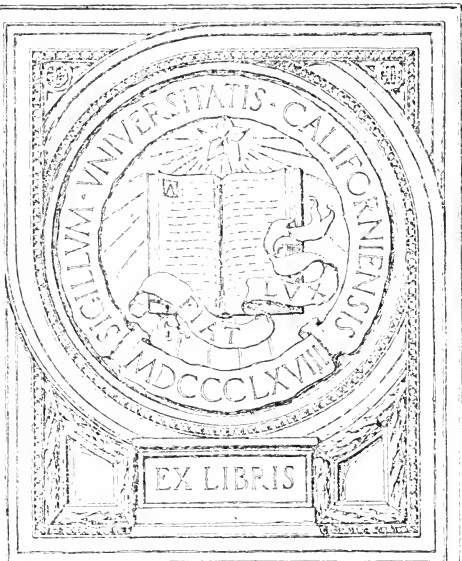
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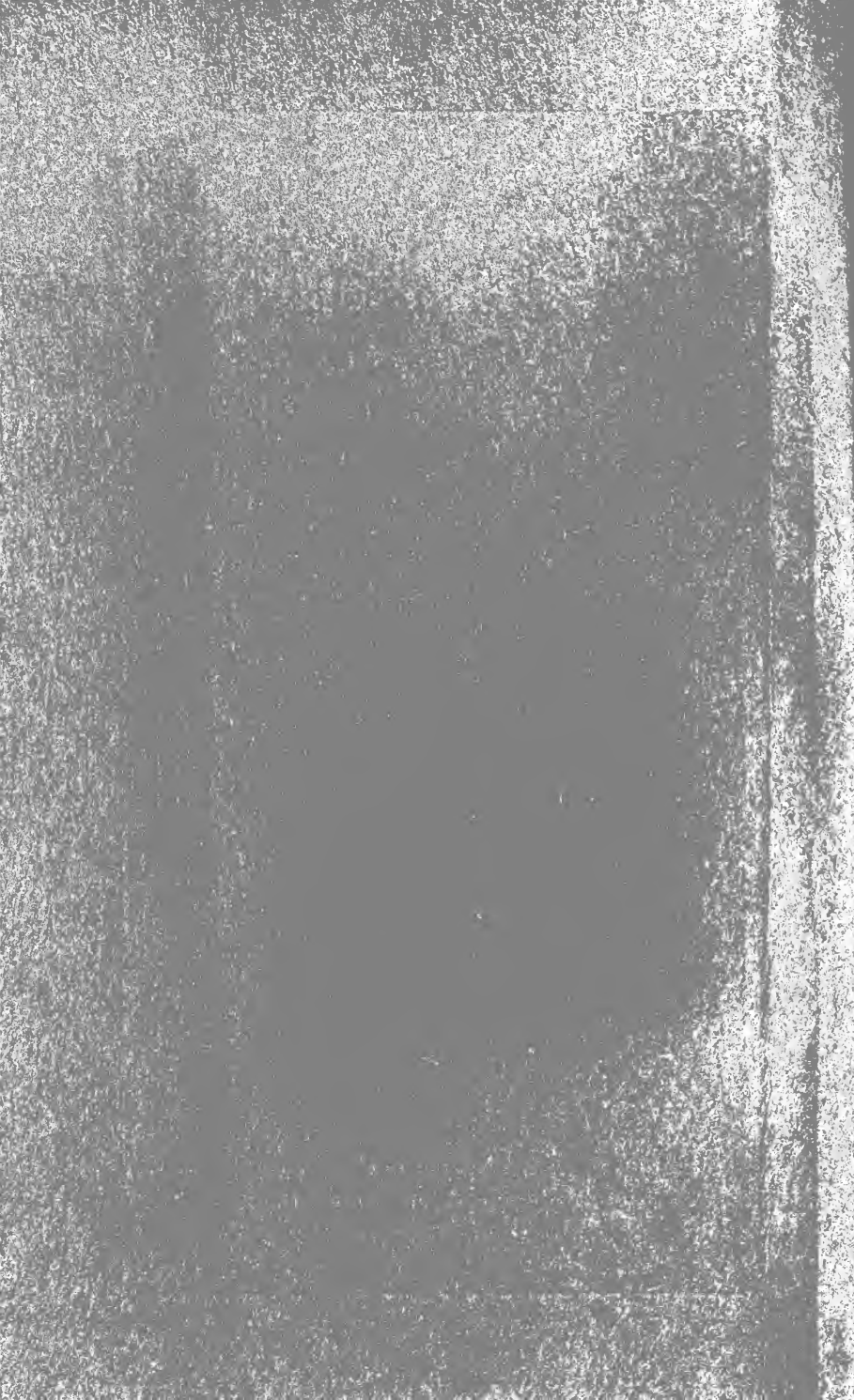


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Government Ownership of Railroads.

By OTTO H. KAHN

**An Address Before the
National Industrial Conference Board
New York, October 10, 1918**



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I

Government Ownership of Railroads

Paternalistic control, even when entirely benevolent in intent, is generally harmful in effect. It is apt to be doubly so when, as sometimes occurs, it is punitive in intent.

The history of our railroads in the last ten years is a case in point.

In their early youth our railroads were allowed to grow up like spoiled, wilful, untamed children. They were given pretty nearly everything they asked for, and what they were not given freely they were apt to get somehow, anyhow. They fought among themselves, and in doing so, were liable to do harm to persons and objects in the neighborhood. They were overbearing and inconsiderate and did not show proper respect to their parent, *i. e.*, the people.

But the fond parent, seeing how strong and sturdy they were and on the whole how hustling and effective in their work, and how, with all their faults of temper and demeanor, they made themselves so useful around the house that he could not really get along without them, only smiled complacently at their occasional mischief or looked the other way. Moreover, he was really too busy with other matters to give proper attention to their education and upbringing.

As the railroads grew toward man's estate and married and begot other railroads, they gradually sloughed off the roughness and objectionable ways of their early youth, and though they did not sprout wings, and though once in a while they still did shock the community, they were amazingly capable at their work and really rendered service of inestimable value.

But meanwhile, for various reasons and owing to sundry influences, the father had grown testy and rather sour on them. He cut their allowance, he restrained them in various ways, some wise, some less so, he changed his will in their disfavor, he showed marked preference to other children of his. And finally, partly because he was annoyed at the discovery of some wrongdoing in which, despite his repeated warnings, a few of the railroads had indulged (though the overwhelming majority were blameless) and partly at the prompting of plausible self-seekers or well-meaning specialists in the improvement of everybody and everything—finally he lost his temper and with it his sense of proportion. He struck blindly at the railroads, he appointed guardians (called commissions) to whom they would have to report daily, who would prescribe certain rigid rules of conduct for them, who would henceforth determine their allowance and supervise their method of spending it, and so forth.

And these commissions, wishing to act in the spirit of the parent who had designated them, but actually being, as guardians are liable to be, more harsh and severe and unrelenting than he would have been or really meant them to be, put the railroads on a starvation diet and otherwise so exercised their functions—with good intent, doubtless, in most cases—that after a while those railroads, formerly so vigorous and capable, became quite emaciated and sev-

eral of them succumbed under the strain of the regime imposed upon them. And then, seeing their condition and having need, owing to special emergencies, of railroad services which required great physical strength and endurance, one fine morning the parent determined upon the drastic step of taking things into his own hands.

II

To drop the style of story-telling: Individual enterprise has given us what is admittedly the most efficient railroad system in the world. It has done so whilst making our average capitalization per mile of road less, the scale of wages higher, the average rates lower, the service and conveniences offered to the shipper and the traveler greater than in any other of the principal countries.

It must be admitted that in the pioneer period of railroad development, and for some years thereafter, numerous things were done, and although generally known to be done, were tolerated by the Government and the public, which should never have been permitted. But during the second administration and upon the courageous initiative of President Roosevelt these evils and abuses were resolutely tackled and a definite and effective stop put to most of them. Means were provided by salutary legislation, fortified by decisions of the Supreme Court, for adequate supervision and regulation of railroads.

The railroads promptly fell into line with the countrywide summons for a more exacting standard of business ethics. The spirit and practices of railroad administration became standardized, so to speak, at a moral level certainly not inferior to that of any other calling. It is true, certain regrettable abuses and incidents of misconduct still came to light in subsequent years, but these were sporadic instances, by no means

characteristic of railroading methods and practices in general, condemned by the great body of those responsible for the conduct of our railroads, no less than by the public at large, and entirely capable of being dealt with by the existing law, possibly amended in nonessential features, and by the force of public opinion.

Unfortunately, the law enacted under President Roosevelt's administration was not allowed to stand for a sufficient length of time to test its effects. The enactment of new railroad legislation in 1909, largely shaped by Congressmen and Senators of very radical tendencies and hostile to the railroads, established, for the first time in America, paternalistic control over the railroads. It was a statute gravely defective in important respects and bearing evidence of having been shaped in heat, hurry, and anger.

The States, to the extent that they had not already anticipated it, were not slow to follow the precedent set by the Federal Government. The resulting structure of Federal and State laws under which the railroads were compelled to carry on their business, was little short of a legislative monstrosity.

III

You all know the result. The spirit of enterprise in railroading was killed. Subjected to an obsolete and incongruous national policy, hampered, confined, harassed by multifarious, minute, narrow, and sometimes flatly contradictory regulations and restrictions, State and Federal, starved as to rates in the face of steadily mounting costs of labor and materials—that great industry began to fall away. Initiative on the part of those in charge became chilled, the free flow of investment capital was halted, creative ability was stopped, growth was stifled, credit was crippled.

The theory of governmental regulation and supervision was entirely right. No fair-minded man would quarrel with that. But the practical application of that theory was wholly at fault and in defiance of both economic law and common sense. It was bound to lead to a crisis.

It is not the railroads that have broken down, it is our railroad legislation and commissions which have broken down.

And now the Government, in the emergency of war, probably wisely and, in view of the prevailing circumstances, perhaps necessarily, has assumed the operation of the railroads.

The Director General of Railroads, rightly and courageously, proceeded immediately to do that which the railroads for years had again and again asked in vain to be permitted to do—only more so.

Freight rates were raised twenty-five per cent. and more, passenger rates in varying degrees up to fifty per cent. Many wasteful and needless practices heretofore compulsorily imposed were done away with.

Passenger train service, for the abolition of some of which the railroads had petitioned unsuccessfully for years, was cut to the extent of an aggregate train mileage of over 47,000,000.

The system of pooling, for which for years many of the railroads had in vain endeavored to obtain legal sanction, was promptly adopted with the natural result of greater simplicity and directness of service and of considerable savings.

The whole theory under which intelligent, effective, and systematic co-operation between the different rail-

ways had been made impossible formerly, was thrown into the scrap heap.

Incidentally, certain services and conveniences were abolished, of which the railroad managements would never have sought to deprive the public, and the very suggestion of the abrogation of which would have led to indignant and quickly effective protest had it been attempted in the days of private control.

IV

For a concise statement of the results accomplished elsewhere under government ownership, I would recommend you to obtain from the Public Printer, and to read, a short pamphlet entitled "Historical Sketch of Government Ownership of Railroads in Foreign Countries," presented to the Joint Committee of Congress on Interstate Commerce by the great English authority, Mr. W. M. Acworth. It will well repay you the half hour spent in its perusal.

You will learn from it that, prior to the war, about fifty per cent. of the railways in Europe were state railways; that in practically every case of the substitution of government for private operation (with the exception, subject to certain reservations, of Germany) the service deteriorated, the discipline and consequently the punctuality and safety of train service diminished, politics came to be a factor in the administration and the cost of operations increased vastly. (The net revenue, for example, of The Western Railway of France, which in the worst year of private ownership was \$13,750,000, had fallen in the fourth year of government operation to \$5,350,000.) He quotes the eminent French economist, Leroy-Beaulieu, as follows:

"One may readily see how dangerous to the liberty of citizens the extension of the industrial regime of the State would be, where the number of functionaries

would be indefinitely multiplied. . . . From all points of view the experience of State railways in France is unfavorable as was foreseen by all those who had reflected upon the bad results given by the other industrial undertakings of the State. . . . The State, above all, under an elective government, cannot be a good commercial manager. . . . The experience which we have recently gained has provoked a very lively movement, not only against acquisition of the railways by the State, but against all extension of State industry. I hope . . . that not only we, but our neighbors also may profit by the lesson of these facts."

Mr. Acworth mentions as a characteristic indication that after years of sad experience with governmentally owned and operated railways, the Italian Government, just before the war, started on the new departure (or rather returned to the old system) of granting a concession to a private enterprise which was to take over a portion of the existing State railway, build an extension with the aid of State subsidies, *and then work on its own account both sections as one undertaking under private management.*

I may add that shortly before the outbreak of the war the Belgian Government was studying the question of returning its State railways to private enterprise and management.

Mr. Acworth relates a resolution *unanimously* passed by the French Senate a few years after the State had taken over certain lines, beginning with the words: "The deplorable situation of the State system, the insecurity and irregularity of its workings." He gives figures demonstrating the invariably greater efficiency, economy, and superiority of service of private management as compared to State management in countries where these two systems are in operation side by side. He treats of the effect of the conflicting interests, sec-

tional and otherwise, which necessarily come into play under government control when the question arises where new lines are to be built and what extensions are to be made of existing lines.

He asks: "Can it be expected that they (these questions) will be decided rightly by a minister responsible to a democratic legislature, each member of which, naturally and rightly, makes the best case he can for his own constituents, while he is quite ignorant, even if not careless, of the interests, not only of his neighbor's constituency, but of the public at large?" And he replies: "The answer is written large in railway history. . . . The facts show that Parliamentary interference has meant running the railways, not for the benefit of the people at large, but to satisfy local and sectional or even personal interests." He says that in a country governed on the Prussian principles, railroad operation and planning may be conducted by the Government with a fair degree of success, as an executive function, but not in democratic countries, where in normal times "it is the legislative branch of the government which not only decides policy but dictates always in main outline, often down to the detail of a particular appointment or a special rate, how the policy shall be carried out."

For corroboration of this latter statement we need only turn to the array of statutes in our own States, which not only fix certain railroad rates by legislative enactment, but deal with such details as the repair of equipment, the minimum movement of freight cars, the kind of headlights to be used on locomotives, the safety appliances to be installed, etc.—and all this in the face of the fact that these States have Public Service Commissions whose function it is to supervise and regulate the railroads.

The reason why the system of state railways in Germany was largely free from most, though by no means

all, of the unfavorable features and results produced by government ownership and operation elsewhere, is inherent in the habits and conditions created in that country by generations of autocratic and bureaucratic government. But Mr. Acworth points out very acutely that while German manufacturers, merchants, financiers, physicians, scientists, etc., "have taught the world a good deal in the twenty years preceding the war, German railway men have taught the world nothing." He asks: "Why is this?" And his answer is: "Because the latter were State officials, and, as such, bureaucrats and routiniers, and without incentive to invent and progress themselves or to encourage or welcome or even accept inventions and progress. It is the private railways of England and France, and particularly of America, which have led the world in improvements and new ideas, whilst it would be difficult to mention a single reform or invention for which the world is indebted to the State railways of Germany."

V

The question of the disposition to be made of the railroads after the war is one of the most important and far-reaching of the post-bellum questions which will confront us. It will be one of the great test questions, the answer to which will determine whither we are bound.

And, it seems to me, one of the duties of business men is to inform themselves accurately and carefully on this subject, so as to be ready to take their due and legitimate part in shaping public opinion, and indeed to start on that task now, before public opinion, one-sidedly informed and fed of set purpose with adroitly colored statements of half truths, crystallizes into definite judgment.

My concern is not for the stock and bond holders. They will, I have no doubt, be properly and fairly taken

care of in case the Government were definitely to acquire the railroads. Indeed, it may well be, that from the standpoint of their selfish interests, a reasonable guarantee or other fixed compensation by the Government would be preferable to the financial risks and uncertainties under private railroad operation in the new and untried era which we shall enter after the war. I know, in fact, that not a few large holders of railroad securities take this view and therefore hold this preference.

Nor do I speak as one who believes that the railroad situation can be restored just as it was before the war. The function, responsibility, and obligation of the railroads as a whole are primarily to serve the interests and economic requirements of the nation. The disjointed operation of the railroads, as in the past, each one considering merely its own system (and being under the law practically prevented from doing otherwise) will, I am sure, not be permitted again.

The relinquishment of certain features of our existing legislation, the addition of others, a more clearly defined and purposeful relationship of the nation to the railroads, involving among other things probable participation of the Government in railroad earnings over and above a certain percentage, are certain to come from our experiences under Government operation and from a fresh study of the subject, in case the railroads are returned to private management, as I trust and believe they will be.

In theory and in its underlying principles, the system of public policy toward the railroads, as gradually evolved in America, but never as yet given a fair chance for adequate translation into practical execution, appears to me an almost ideal one. It preserves for the country, in the conduct of its railroads, the inestimable advantage of private initiative, efficiency, resourcefulness, and financial responsibility, while at the same time through governmental regulation and supervision it emphasizes the

semi-public character and duties of railroads, protects the community's rights and just claims and guards against those evils and excesses of unrestrained individualism which experience has indicated.

It is, I am profoundly convinced, a far better system than government ownership of railroads, which, wherever tested, has proved its inferiority except, to an extent, in the Germany on which the Prussian Junker planted his heel and of which he made a scourge and a dreadful example to the world.

And the very reasons which have made State railways measurably successful in *that* Germany are the reasons which would make Government ownership and operation in America a menace to our free institutions, a detrimental influence upon our national qualities of thought and action, and a grave economic disservice.





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